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ABSTRACT

This report looks at information on federally guaranteed student loans and loan defaults for students attending Historically Black Colleges and Universities (HBCUs) and how the application of federal default rate thresholds to HBCUs beginning in July 1994 might affect their participation in federal student aid programs. The July 1994 thresholds may bar postsecondary institutions with high default rates from continuing to participate in various federal student financial aid programs. The study used a list of HBCUs and loan and default data for fiscal years 1987-91 from the Federal Family Education Loans (FFEL) program. To estimate the number of HBCUs that could become ineligible in fiscal year 1994 at varying default rate thresholds, the study used cohort default rates for fiscal year 1988-90. The analysis found that of the $13.5 billion in FFELs made in fiscal year 1991, less than 3 percent went to students attending HBCUs. If HBCU cohort default rates remain the same for the future as they were for 1988-90 (about 23 percent), about 33 of the 105 HBCUs will lose their FFEL eligibility in fiscal year 1994 and as many as 62 of the HBCUs could be subject to a state review. The 33 HBCUs accounted for about 12 percent of HBCU loan volume in fiscal year 1991. (JB)

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United States General Accounting Office

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Fact Sheet for the Honorable Paul Simon, U.S, Senate

August 1993

STUDENT LOANS

Default Rates at Historically Black Colleges and Universities

ED 362 091

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-252172

August 19, 1993

The Honorable Paul Simon
United States Senate

Dear Senator Simon:

This report responds to your request for information on federally guaranteed student loans and loan defaults for students attending Historically Black Colleges and Universities (HBCUs) and how the application of federal default rate thresholds to HBCUs beginning in July 1994 might affect their participation in federal student aid programs. As agreed with your office, we (1) determined the dollar amount of Federal Family Education Loans (FFEL) made to HBCU students; (2) identified default rates and the amount of defaulted loans for HBCUs; and (3) estimated, assuming that current default rates will remain the same, the number of HBCUs in fiscal year 1994 that at varying default rate thresholds could either lose their FFEL eligibility or be subject to an evaluation by a state review organization. The state review is used in determining if a school should continue to participate in federal student assistance programs under title IV of the Higher Education Act of 1965, as amended.[1]

Background

HBCUs are institutions established before 1964 whose principal mission is educating black Americans. Currently, the Department of Education recognizes 105 HBCUs. (See app. I.) In 1990, HBCUs accounted for about 17 percent of black students attending postsecondary institutions and 28 percent of black students attending 4-year institutions. Of black students who received bachelor's degrees in the 1989-90 school year, 27 percent received their degrees from HBCUs. During fiscal year 1990, about 82,000 HBCU students received Stafford loans.

The Congress has tightened institutional eligibility requirements for federal student assistance programs during the last few years. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) initiated a process that can bar postsecondary institutions with high default rates

[1]Student aid programs under title IV of the act include FFELs—Federal Stafford loans, Federal Supplemental Loans for Students (SLS), and Federal Parent Loans for Undergraduate Students (PLUS)—as well as Pell grants, Supplemental Education Opportunity Grants, Perkins loans, and college work-study.

from continuing to participate in the FFEL program.[2] To remain eligible, an institution must meet "cohort" default rate requirements. The cohort default rate is the percentage of an institution's student loan borrowers entering repayment in a fiscal year who default by the end of the following fiscal year.[3] For example, if 100 former students from a school were scheduled to begin repaying their loans in fiscal year 1990 and 25 defaulted on their loans by the end of fiscal year 1991, the school's fiscal year 1990 cohort default rate would be 25 percent.

Each year, the Department assesses an institution's eligibility based on its three most recent available cohort default rates. In fiscal year 1994, eligibility will be based on default rates for fiscal years 1990, 1991, and 1992. An institution remains eligible if its cohort default rate is below the statutory threshold in at least 1 of 3 consecutive fiscal years. An institution becomes ineligible if its default rate meets or exceeds the default threshold in all 3 fiscal years. For example, if the cohort default rate threshold in fiscal year 1994 is 25 percent and a school's default rates for fiscal years 1990, 1991, and 1992 are 24, 30, and 31 percent, respectively, the school would remain eligible for FFELs in fiscal year 1994. This is because one of its three fiscal year default rates (1990's rate) was 24 percent—below the 25-percent threshold. The school could be ineligible in fiscal year 1995 if its fiscal year 1993 default rate is 25 percent or more. The law exempts HBCUs, tribally controlled community colleges, and Navajo community colleges from these default rate requirements until July 1, 1994.

The law also provides a process allowing schools to appeal a Department of Education ineligibility determination. An institution declared ineligible may appeal the decision to the Secretary of Education. While the appeal is under consideration, the Department may allow the institution to continue to participate in the FFEL program. An appeal decision may reinstate an institution's eligibility if it is found that (a) the Department inaccurately calculated the institution's default rate for any of the 3 fiscal years used to determine ineligibility or (b) exceptional mitigating circumstances would make the default rate restrictions inequitable.

Thresholds for cohort default rates have become more stringent over the years. The threshold was 35 percent for determining a school's eligibility

[2]Borrowers are in default if they fail to make any scheduled payments on their loans for 180 days if repayment is made monthly and 240 days if made less frequently. The cohort default rate is calculated using only those defaults for which claims have been paid to lenders.

[3]If less than 30 students enter repayment at an institution in a given year, the cohort default rate is the percentage of borrowers entering repayment in the most recent 3 years who defaulted by the end of the fiscal years after they entered repayment.

in fiscal years 1991 and 1992 and is 30 percent for fiscal year 1993. The Higher Education Amendments of 1992 (P.L. 102-325) further tightened FFEL eligibility requirements by lowering the threshold to 25 percent beginning in fiscal year 1994. The exemption for HBCUs, tribally controlled community colleges, and Navajo community colleges was not extended past July 1, 1994. Therefore, if an HBCU's cohort default rates for 1990 through 1992 exceeded the 25-percent threshold level for these 3 years, it could become ineligible in fiscal year 1994.

In addition to a lower default rate threshold for schools' continued participation in the FFEL program, the 1992 amendments require states to review, under certain circumstances, postsecondary institutions' federal student assistance programs. Once federal funds are provided, state-designated agencies must review any postsecondary institution that meets any of 11 criteria, including a cohort default rate of 25 percent or more, or a rate of 20 percent or more if the institution relies heavily on federal student aid.[4] The statutory exemption for HBCUs does not extend to the state review requirement. As of July 1, 1993, however, the Congress had not appropriated any funds for the state reviews.

Results in Brief

Of the $13.5 billion in FFELs made in fiscal year 1991, less than 3 percent went to students attending HBCUs. FFELs made to HBCU students totaled $372 million in fiscal year 1991.

HBCU default loan volume for the fiscal year 1990 cohort was $45 million. Average annual cohort default rates for loans made to students attending HBCUs ranged from 21 to 27 percent during fiscal years 1987-90.[5] If HBCU cohort default rates remain the same for fiscal years 1990-92 as they were for fiscal years 1988-90, 33 (almost one-third) of the 105 HBCUs will lose their FFEL eligibility in fiscal year 1994. The 33 HBCUs accounted for about 12 percent of HBCU loan volume in fiscal year 1991. Also, based on fiscal year 1990 rates, as many as three-fourths of HBCUs could be subject to a state review to determine their continued eligibility for participating in federal student assistance programs.

[4]The 20-percent default threshold applies to a school if at least two-thirds of its undergraduates enrolled on at least a half-time basis receive federal student assistance under title IV or if at least two-thirds of its institutional expenditures are paid for through federal student aid.

[5]The average HBCU default rate is based on the cohort of all HBCU student borrowers.

Scope and Methodology

We obtained a list of HBCUs from the White House Initiative on Historically Black Colleges and Universities. We analyzed FFEL program loan and default data obtained from the Department of Education, including loan amounts, dollar amounts of cohort defaults, and cohort data (borrowers entering repayment and defaulters) for fiscal years 1987-91. This was the most recent information available when we conducted our review. We did not verify the accuracy of data obtained from the Department.

To estimate the number of HBCUs that could become ineligible in fiscal year 1994 at varying default rate thresholds, we used cohort default rates for fiscal years 1988-90. We assumed that the 1990-92 cohort default rates, which the Department will use to make eligibility determinations for fiscal year 1994, will be the same as the 1988-90 rates.

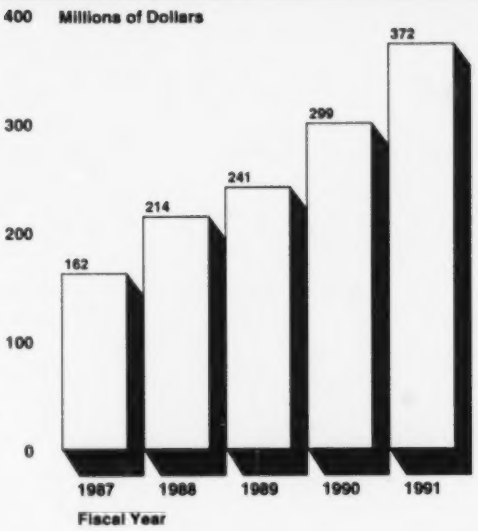
To estimate the number of HBCUs that could be identified for a state review in 1994, we used cohort default rates for fiscal year 1990. Again, we assumed that the 1992 cohort default rates will be the same as the 1990 rates.

We conducted our review between November 1992 and June 1993 in accordance with generally accepted government auditing standards.

HBCU Loans Are a Small Portion of FFEL Program Loans

Of the total dollar amount of FFELs made to students each year, the percentage that goes to HBCU students is small, even though HBCU loan volume more than doubled in recent years. In fiscal year 1991, the total dollar volume of FFELs was $13.5 billion. Loans to students attending HBCUs totaled $372 million—less than 2.8 percent of the FFELs made to postsecondary students that year. (See fig. 1.) In fiscal year 1987, loans to HBCU students represented about 1.7 percent of the total loans to postsecondary students.

Figure 1: FFEL Volume to Students Attending HBCUs, Fiscal Years 1987-91

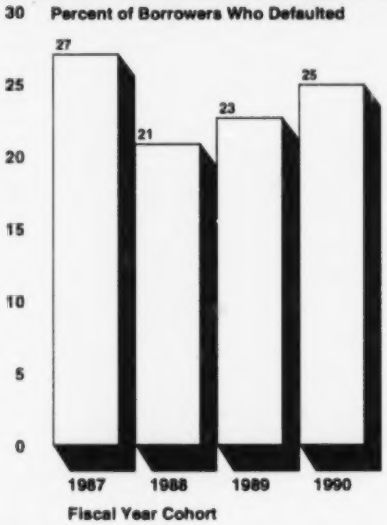


Source: Department of Education data.

Average HBCU Default Rates Varied

During fiscal years 1987-90, HBCU cohort default rates were highest for the 1987 cohort and lowest for the 1988 cohort. As figure 2 shows, HBCU cohort default rates dropped from 27 percent in fiscal year 1987 to 21 percent in 1988, then rose the next 2 years to 25 percent in fiscal year 1990.

Figure 2: HBCU Cohort Default Rates for Fiscal Years 1987-90



Source: Department of Education data.

As table 1 shows, the dollar amount of HBCU cohort defaults accounted for slightly more than 3 percent of the $1.4 billion of fiscal year 1990 cohort defaults for all postsecondary students.

Table 1: Stafford and SLS Loans and Defaults by Kind of School, Fiscal Year 1990 Cohort

Kind of postsecondary institution	Dollars in millions		Percent	
	Loans in repayment	Defaults	Disbursed	Defaulted
HBCU	$205	$45	2.1	3.2
Proprietary	2,700	996	28.3	69.3
All others	6,632	395	69.6	27.5
Total	**$9,537**	**$1,436**	**100.0**	**100.0**

Source: Department of Education data.

Default Thresholds Could Affect Many HBCUs

If HBCU cohort defaults continue at their present rate, about a third of the 105 HBCUs could become ineligible for the FFEL program in fiscal year 1994.

Also, 59 to 75 percent of HBCUs could be subject to a state review of their continued eligibility for federal student assistance.

HBCUs Could Become Ineligible for the FFEL Program

If fiscal years 1988-90 cohort default rates persist, 33 of the 105 HBCUs could become ineligible for continued participation in the FFEL program when their exemption ends on July 1, 1994. (See table 2 for outcomes under current law and varying default rate thresholds.) The 33 schools had cohort default rates of 25 percent or more in the 3 fiscal years. They include 11 2-year schools (65 percent of 2-year HBCUs) and 22 4-year schools (25 percent of 4-year HBCUs). Together, these schools accounted for about 12 percent—or $45 million—of total FFELs made to HBCU students in fiscal year 1991 and 15 percent of all students enrolled in HBCUs in the beginning of that fiscal year.

Table 2: Number of HBCUs That Could Lose Eligibility for FFEL Participation at Varying Default Rate Thresholds in Fiscal Year 1994

Default rate[a] threshold	HBCUs that could become ineligible	HBCU loan volume in fiscal year 1991
25%	33	$ 44,625,914
30	21	21,721,763
35	9	1,675,279
40	6	251,508

[a] Default rates are based on fiscal years 1988-90 cohort data, which are the most recent available. Eligibility determinations in 1994 will be made using fiscal years 1990-92 cohort data.

Source: Department of Education data.

Many HBCUs Could Be Subject to State Review

As many as 62 of the 105 HBCUs could be subject to a state review in 1994 because their cohort default rates met or exceeded 25 percent. This assumes that the fiscal year 1992 cohort default rates will be the same as the fiscal year 1990 cohort. (See table 3.) The number of HBCUs subject to this requirement could be as high as 79, depending upon their reliance on federal student aid. The 79 HBCUs (all 17 2-year schools and 62 of 88 4-year schools) had fiscal year 1990 cohort default rates of 20 percent or more.

A state review would determine the institutions' eligibility for all title IV federal student assistance programs, including grant programs. These 79 HBCUs accounted for $224 million—or about 60 percent—of the total HBCU loan volume in fiscal year 1991.

Table 3: Number of HBCUs That Could Be Subject to a State Review at Varying Default Rate Thresholds in Fiscal Year 1994

Default rate[a] threshold	HBCUs to receive a state review	HBCU loan volume in fiscal year 1991
20%	79	$223,716,677
25	62	132,928,674
30	46	99,508,788
35	25	28,882,789
40	17	8,503,730

[a] Default rates are based on fiscal year 1990 cohort data. States will review institutions whose default rates meet or exceed 25 percent or 20 percent if certain criteria are met.

Source: Department of Education data.

As agreed with your office, we did not obtain written comments on this fact sheet from the Department of Education or other interested parties. We did, however, discuss its contents with Department program officials, who generally agreed with our facts, and incorporated their comments where appropriate.

We are sending copies of this fact sheet to the Secretary of Education, appropriate congressional committees, and other interested parties. Should you wish to discuss its contents, please call me on (202) 512-7014. Other major contributors are listed in appendix II.

Sincerely yours,

Linda G. Morra
Director, Education and
Employment Issues

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Abbreviations

FFEL	Federal Family Education Loan
HBCU	Historically Black Colleges and Universities
PLUS	Parent Loans for Undergraduate Students
SLS	Supplemental Loans for Students

Historically Black Colleges and Universities

HBCU	State	Institution type	Fall enrollment 1990
Alabama A&M University	AL	4-yr. public	4,886
Alabama State University	AL	4-yr. public	4,587
Bishop State Community College	AL	2-yr. public	2,057
Carver State Technical College	AL	2-yr. public	535
Concordia College	AL	2-yr. private	380
Fredd State Technical College	AL	2-yr. public	279
J.F. Drake State Technical College	AL	2-yr. public	852
Lawson State Community College	AL	2-yr. public	1,711
Miles College	AL	4-yr. private	584
Oakwood College	AL	4-yr. private	1,266
Selma University	AL	4-yr. private	316
Stillman College	AL	4-yr. private	770
Talladega College	AL	4-yr. private	667
Trenholm State Technical College	AL	2-yr. public	783
Tuskegee University	AL	4-yr. private	3,510
Arkansas Baptist College	AR	4-yr. private	291
Philander Smith College	AR	4-yr. private	594
Shorter College	AR	2-yr. private	135
University of Arkansas at Pine Bluff	AR	4-yr. public	3,672
Howard University	DC	4-yr. private	11,617
University of the District of Columbia	DC	4-yr. public	11,990
Delaware State College	DE	4-yr. public	2,606
Bethune Cookman College	FL	4-yr. private	2,342
Edward Waters College	FL	4-yr. private	597
Florida A&M University	FL	4-yr. public	8,344
Florida Memorial College	FL	4-yr. private	2,251
Albany State College	GA	4-yr. public	2,405
Clark Atlanta University	GA	4-yr. private	3,508
Fort Valley State College	GA	4-yr. public	2,158
Interdenominational Theological Center	GA	4-yr. private	294
Morehouse College	GA	4-yr. private	2,865
Morris Brown College	GA	4-yr. private	2,049
Paine College	GA	4-yr. private	606
Savannah State College	GA	4-yr. public	2,319
Spelman College	GA	4-yr. private	1,710
Kentucky State University	KY	4-yr. public	2,506
Dillard University	LA	4-yr. private	1,998
Grambling State University	LA	4-yr. public	6,485

(continued)

HBCU	State	Institution type	Fall enrollment 1990
Southern University and A&M College System	LA	4-yr. public	8,941
Southern University at Shreveport	LA	2-yr. public	1,020
Southern University at New Orleans	LA	4-yr. public	4,064
Xavier University of Louisiana	LA	4-yr. private	2,943
Bowie State University	MD	4-yr. public	4,188
Coppin State College	MD	4-yr. public	2,578
Morgan State University	MD	4-yr. public	4,693
University of Maryland, Eastern Shore	MD	4-yr. public	2,067
Lewis College of Business	MI	2-yr. private	233
Harris-Stowe State College	MO	4-yr. public	1,973
Lincoln University	MO	4-yr. public	3,619
Alcorn State University	MS	4-yr. public	2,863
Coahoma Community College	MS	2-yr. public	1,351
Hinds Community College	MS	2-yr. public	668
Jackson State University	MS	4-yr. public	6,837
Mary Holmes College	MS	2-yr. private	742
Mississippi Valley State University	MS	4-yr. public	1,873
Rust College	MS	4-yr. private	1,021
Tougaloo College	MS	4-yr. private	956
Barber-Scotia College	NC	4-yr. private	422
Bennett College	NC	4-yr. private	586
Elizabeth City State University	NC	4-yr. public	1,746
Fayetteville State University	NC	4-yr. public	3,337
Johnson C. Smith University	NC	4-yr. private	1,182
Livingstone College	NC	4-yr. private	682
North Carolina A&T State University	NC	4-yr. public	6,595
North Carolina Central University	NC	4-yr. public	5,482
Shaw University	NC	4-yr. private	1,846
St. Augustine's College	NC	4-yr. private	1,900
Winston-Salem State University	NC	4-yr. public	2,517
Central State University	OH	4-yr. public	2,886
Wilberforce University	OH	4-yr. private	809
Langston University	OK	4-yr. public	2,792
Cheyney University	PA	4-yr. public	1,738
Lincoln University	PA	4-yr. public	1,374
Allen University	SC	4-yr. private	233
Benedict College	SC	4-yr. private	1,478
Claflin College	SC	4-yr. private	913
Clinton Junior College	SC	2-yr. private	88

(continued)

HBCU	State	Institution type	Fall enrollment 1990
Denmark Technical College	SC	2-yr. public	617
Morris College	SC	4-yr. private	760
South Carolina State College	SC	4-yr. public	4,822
Voorhees College	SC	4-yr. private	566
Fisk University	TN	4-yr. private	911
Knoxville College	TN	4-yr. private	1,266
Lane College	TN	4-yr. private	530
Lemoyne-Owen College	TN	4-yr. private	1,066
Meharry Medical College	TN	4-yr. private	623
Morristown College[a]	TN	2-yr. private	0
Tennessee State University	TN	4-yr. public	7,393
Huston-Tillotson College	TX	4-yr. private	714
Jarvis Christian College	TX	4-yr. private	598
Paul Quinn College	TX	4-yr. private	997
Prairie View A&M University	TX	4-yr. public	4,990
Saint Phillip's College	TX	2-yr. public	5,204
Southwestern Christian College	TX	4-yr. private	225
Texas College	TX	4-yr. private	478
Texas Southern University	TX	4-yr. public	9,427
Wiley College	TX	4-yr. private	463
Hampton University	VA	4-yr. private	5,305
Norfolk State University	VA	4-yr. public	8,008
Saint Paul's College	VA	4-yr. private	574
Virginia State University	VA	4-yr. public	3,988
Virginia Union University	VA	4-yr. private	1,298
University of the Virgin Islands	VI	4-yr. public	1,684
Bluefield State College	WV	4-yr. public	2,702
West Virginia State College	WV	4-yr. public	4,834

[a]Annexed by Knoxville College in 1989

Source: Department of Education data

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